



FEDERATED DEPARTMENT STORES, INC.

Annual Report

1956

FISCAL YEAR ENDED
FEBRUARY 2, 1957

BOARD
Q658.27
F317r

THE FEDERATED DEPARTMENT STORES

ABRAHAM & STRAUS

Established 1865

WALTER N. ROTHSCHILD
Chairman of the Board

SIDNEY L. SOLOMON
President & General Manager

ROBERT E. BLUM
Vice President & Secretary

Brooklyn, New York
Garden City, Long Island,
New York
Hempstead, Long Island,
New York
Babylon, Long Island, New York
(under construction)

BLOOMINGDALE'S

Established 1872

JAMES S. SCHOFF
President & Managing Director

J. EDWARD DAVIDSON
Chairman of the Board

New York City, New York
Fresh Meadows, Long Island,
New York
New Rochelle, New York
Stamford, Connecticut

BOSTON STORE

Established 1900

PAUL W. MAHER
President

Milwaukee, Wisconsin
Manitowoc, Wisconsin
Oshkosh, Wisconsin
Bay Shore Shopping Center,
Milwaukee, Wisconsin
(under construction)

BURDINE'S

Established 1898

GEORGE E. WHITTEN
President

HORACE F. CORDES
Executive Vice President

RUSSELL A. JONES
Executive Vice President

Miami, Florida
163rd Street Shopping Center,
Miami, Florida
Miami Beach, Florida
Ft. Lauderdale, Florida
West Palm Beach, Florida

FEDWAY STORES

Established 1952

EDWARD E. WATSON
President

MORRIS GINSBURG
Vice President

General Offices—Cincinnati, Ohio
Merchandise Office—New York,
New York
Albuquerque, New Mexico
Amarillo, Texas
Bakersfield, California
Corpus Christi, Texas
Longview, Texas
Oklahoma City, Oklahoma
(Halliburton's)
Pomona, California
Westwood Village,
Los Angeles, California
Wichita Falls, Texas

FILENE'S

Established 1852

LINCOLN FILENE
Chairman of the Board

HAROLD D. HODGKINSON
President

SAMUEL M. SEEGAL
Vice President

Boston, Massachusetts
Belmont, Massachusetts
Chestnut Hill, Massachusetts
Hyannis, Massachusetts
Northampton, Massachusetts
North Shore, Peabody,
Massachusetts
(under construction)
Wellesley, Massachusetts
Winchester, Massachusetts
Worcester, Massachusetts
B. Peck Company,
Lewiston, Maine

FOLEY'S

Established 1900

MAX LEVINE
President

MAURICE LAZARUS
Executive Vice President

Houston, Texas

LAZARUS

Established 1851

ROBERT LAZARUS
President

CHARLES Y. LAZARUS
Executive Vice President

Columbus, Ohio

SANGER'S

Established 1857

HENRY X. SALZBERGER
President

Dallas, Texas
Highland Park, Dallas, Texas
Preston Center, Dallas, Texas
(under construction)

SHILLITO'S

Established 1830

JEFFREY L. LAZARUS
President

FRED LAZARUS III
Executive Vice President

Cincinnati, Ohio



BOARD OF DIRECTORS

DILLON ANDERSON <i>Attorney Baker, Botts, Andrews & Shepherd</i>	JEFFREY L. LAZARUS <i>President, Shillito's</i>
SAMUEL J. BLOOMINGDALE <i>Honorary Chairman of the Board Bloomingdale's</i>	RALPH LAZARUS* <i>Executive Vice President Federated Department Stores, Inc.</i>
ROBERT E. BLUM <i>Vice President & Secretary Abraham & Straus</i>	ROBERT LAZARUS* <i>President, Lazarus</i>
J. EDWARD DAVIDSON <i>Chairman of the Board Bloomingdale's</i>	JOHN F. LEBOR <i>Vice President Federated Department Stores, Inc.</i>
LINCOLN FILENE <i>Chairman of the Board Federated Department Stores, Inc. Chairman of the Board, Filene's</i>	MAX LEVINE <i>President, Foley's</i>
WALTER M. HEYMANN* <i>Executive Vice President First National Bank of Chicago</i>	WALTER N. ROTHSCHILD* <i>Chairman of Executive Committee Federated Department Stores, Inc. Chairman of the Board Abraham & Straus</i>
HAROLD D. HODGKINSON <i>President, Filene's</i>	JAMES S. SCHOFF <i>President & Managing Director Bloomingdale's</i>
JACOB J. KAPLAN* <i>Attorney, Nutter, McClennen & Fish</i>	T. SPENCER SHORE* <i>President, Eagle-Picher Co.</i>
FRED LAZARUS, JR.* <i>President Federated Department Stores, Inc.</i>	SIDNEY L. SOLOMON <i>President, Abraham & Straus</i>
	GEORGE E. WHITTEN <i>President, Burdine's</i>

*Members of Executive Committee

Consultant, PAUL MAZUR, Partner, Lehman Brothers

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OFFICERS

LINCOLN FILENE, <i>Chairman of the Board</i>
FRED LAZARUS, JR. <i>President</i>
WALTER N. ROTHSCHILD, <i>Chairman of the Executive Committee</i>
RALPH LAZARUS, <i>Executive Vice President</i>
ROBERT E. BLUM <i>Vice President</i>
ALFRED H. DANIELS <i>Vice President</i>
EUGENE S. DUFFIELD <i>Vice President</i>
HAROLD D. HODGKINSON <i>Vice President</i>
JEFFREY L. LAZARUS <i>Vice President</i>
ROBERT LAZARUS <i>Vice President</i>
JOHN F. LEBOR <i>Vice President</i>
MAX LEVINE <i>Vice President</i>
JAMES S. SCHOFF <i>Vice President</i>
MYRON S. SILBERT <i>Vice President</i>
EDWARD E. WATSON <i>Vice President</i>
GEORGE E. WHITTEN <i>Vice President</i>
JACOB J. KAPLAN <i>Secretary</i>
ALLAN P. LUCHT <i>Treasurer</i>

TRANSFER AGENT
The Hanover Bank

REGISTRAR
Bankers Trust Co.



COMPARATIVE HIGHLIGHTS

		53 WEEKS ENDED FEBRUARY 2, 1957	52 WEEKS ENDED JANUARY 28, 1956	52 WEEKS ENDED JANUARY 29, 1955
SALES, EARNINGS, DIVIDENDS	Net Retail Sales	\$601,491,511	\$537,722,365	\$500,556,136
	Income Before Taxes	\$ 49,310,924	\$ 46,214,142	\$ 39,791,636
	Percent of Sales	8.2%	8.6%	7.9%
	Net Income After Taxes	\$ 23,510,924	\$ 22,064,142	\$ 19,091,636
	Percent of Sales	3.9%	4.1%	3.8%
	Net Income for Common:			
	Common Dividends Paid	\$ 11,907,307	\$ 10,336,737	\$ 8,998,260
	Earnings Retained in Company	\$ 11,603,617	\$ 11,727,405	\$ 9,882,152
	Earnings per Share of Common*§	\$ 3.16	\$ 3.07	\$ 2.63
FROM THE BALANCE SHEET	Dividends per Share of Common*	\$ 1.60	\$ 1.43¾	\$ 1.25
	Accounts Receivable	\$ 88,674,123	\$ 78,980,003	\$ 71,427,024
	Inventories	67,806,266	57,663,093	51,069,910
	Working Capital	126,192,132	110,217,165	95,932,682
	Long-term Debt	23,589,946	19,385,524	22,295,821
	Shareholders' Investment	169,398,785	142,610,286	131,273,218
ADDITIONAL SALIENT FACTS	Common Shares Outstanding:			
	Average During the Year*	7,445,406	7,186,656	7,197,282
	At the End of the Year*	7,704,091	7,191,934	7,192,164
	Ratio of Current Assets to Current Liabilities	3.1	3.1	2.9
	Book Value per Share of Common†*	\$ 21.99	\$ 19.83	\$ 18.25

* Adjusted to reflect 2 for 1 stock split on January 27, 1956.

§ Based on average number of shares outstanding during the year.

† Based on number of shares outstanding at end of year.

PRESIDENT'S LETTER

Cincinnati 2, Ohio

Dear Fellow Shareholder:

The 1956 fiscal year, ended February 2, 1957, was the best year in the Company's history. We attained our largest sales, our highest net income and our greatest per share earnings and dividends.

The 1956 fiscal year contained 53 weeks as must occur about once in six years due to the fact that our normal accounting year, comprising four 13-week quarters, covers only 364 days. Comparisons with previous years are affected also by the addition, effective July 28, 1956, of the operations of Burdine's of Florida, which, as is explained below, affiliated with Federated on that date.

Total 1956 sales of \$601,492,000 represented an increase of 11.9 per cent over the previous year and made 1956 the eighteenth consecutive year that Federated achieved an increase in volume of business.

Net income after taxes amounted to \$23,511,000, the highest in our history.

Earnings per share, figured on the average number of shares outstanding during the respective years, were \$3.16 in 1956 compared with \$3.07 the year before and \$2.63 in 1954. Here again the 1956 figure was a new high for Federated.

Dividends of \$1.60 per share were paid during the fiscal year, a rate that was established with the dividend paid on April 28, 1956. Payments were \$1.43 $\frac{3}{4}$ in the previous year and \$1.25 in 1954.

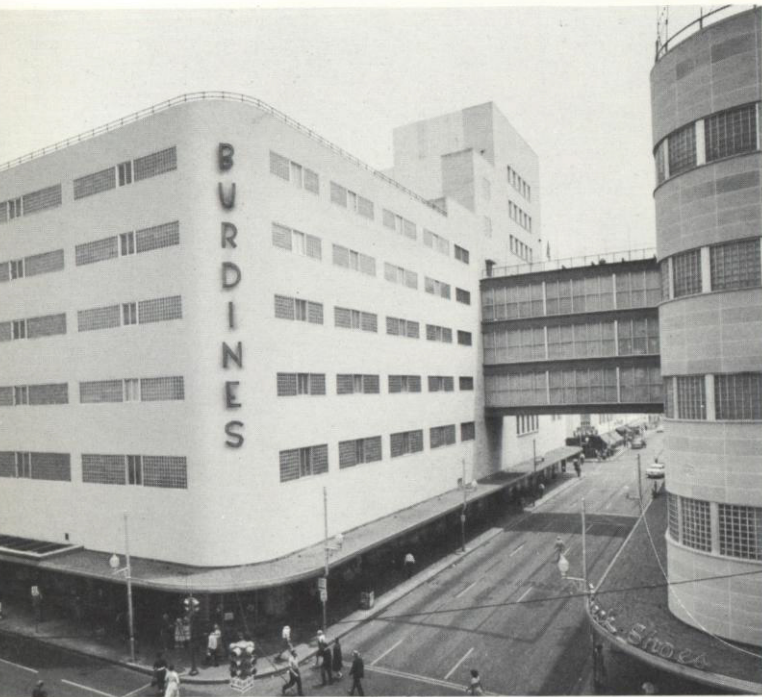
Our balance sheet at the year end continued to reflect a healthy over-all position. Broadly speaking, the major items were in about the same proportions as at the preceding year end, but all of the figures are larger because of the normal growth of the Company plus the addition of the Burdine business. Notwithstanding our plans for expanding facilities, outlined later in this report, we do not foresee any need for financing that would involve the sale of equity securities or the issuance of long-term debt in the 1957 fiscal year.

Our shareholders' book equity at the year end reached \$169,399,000, representing 87.8 per cent of our capital structure.

Inventories and commitments for merchandise at the year end were in good relationship to sales, representing an estimated 90 days' supply which was practically the same as a year earlier.

In the 1956 fiscal year we passed another milestone in the growth of sales. They exceeded \$600 million for the first time in the history of the Company, tripling in eleven years. For eighteen consecutive years we have enjoyed a steady advance in volume of business. Part of this increase has resulted from acquisitions of other companies in new areas. An even more important part has come from the internal growth that all our divisions have achieved. It seems appropriate, therefore, to devote a major part of this letter to an explanation of some of the policies that underlie both types of growth.

Federated Enters Florida . . . The New Burdine Division



Downtown Miami



163rd Street Shopping Center, Miami



Administration and Service Building, Miami



Miami Beach

GROWTH GEOGRAPHICALLY

For the past twelve years Federated has followed a policy of diversifying its business geographically. As attractive opportunities have appeared, we have expanded into new areas, giving marked preference to communities with better-than-average trends in population, income and retail sales. This policy led, for example, to our expansion into Texas, Oklahoma, New Mexico and California during 1945-54.

In 1956, we were able to apply this policy again by affiliating with Burdine's of Florida. Federated acquired the net assets of Burdine's on July 28, 1956, in return for 525,561 shares of Federated common stock. Thus, we established our first division in the southeastern quarter of the country and in the Florida market that has experienced such a sharp growth in population and volume of business.

Metropolitan Miami, headquarters city for the Burdine stores, had an 85 per cent increase in population between 1940 and 1950. By 1955 its population had increased another 45 per cent, and still another 37 per cent increase is expected by 1960. The volume of retail trade gained 70 per cent between the census years 1948-54, making Miami first among major metropolitan areas in rate of gain during that period.

Burdine's is the oldest and largest department store in Florida. It is a favorite not only with the year-around residents of Florida's Gold Coast but also with thousands of vacationists. At the time of acquisition, Burdine's physical properties consisted of four stores, located in Miami, Miami Beach, Fort Lauderdale and West Palm Beach, and a new central administration and service building, also located in Miami. A fifth store on 163rd Street in northeast Miami was completed and opened November 1, 1956.

Because of the dynamic area it serves and because it is a leading business in that area, Burdine's is an important addition to Federated with a high potential for even greater development in pace with its communities' growth.



Ft. Lauderdale



West Palm Beach

GROWTH PHYSICALLY

Growth of our business, plus growth of the communities served by our stores, give us a double reason for expanding our physical properties. Of the buildings, including stores, service buildings and customer parking garages, occupied by us at the year end, 42 per cent, by area, have been newly built since 1945.

A glance at our expansion program, outlined below, will show that it includes enlargements of some downtown stores as well as establishment of several new branch stores. Which kind of expansion is wise depends, we believe, on a careful study of each community and how it can be served best. As last year's report explained, some of the major considerations include: the character of our store, accessibility of the downtown area, availability of downtown parking, present and projected highway developments, rate of population growth in the suburbs and the type and location of suburban shopping facilities. Each city's shopping requirements merit their own study and solution rather than a dogmatic answer.

The closing of some downtown stores in large metropolitan areas during the past few years has caused us to be asked questions about the growth and profit potential of downtown stores. Every one of our major downtown stores—Abraham & Straus, Bloomingdale's, Boston Store, Burdine's, Filene's, Foley's, Lazarus, Sanger's and Shillito's—achieved its largest annual volume of business in the 1956 fiscal year. Over the past five years, as well as previously, each of these downtown stores has shown substantial growth in both volume and profit and, we believe, will continue to do so. Alertly merchandised and supported by the kinds of services that shoppers expect downtown, they have a pulling power that no other kind of store can approach. Community leadership, to which our store managements contribute substantially, has properly interested itself in developments that sustain the downtown community; urban renewal, expressways and parking are important everywhere and are continuing at an accelerated pace. With all of our branch store growth, we find that the downtown store must be and can be the vital hub of total area activity.

How these policies shape Federated's expansion activities can be shown best by a brief summary of our program. Five major expansions are scheduled for 1957 occupancy, and others have been announced for later completion.

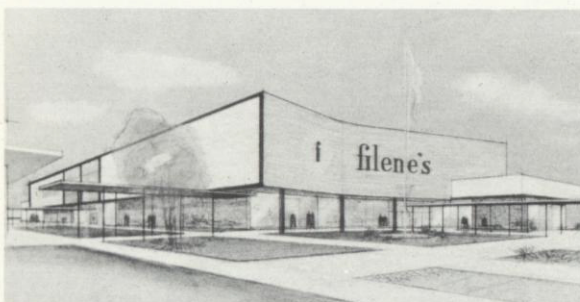
One of the principal 1957 projects is the enlargement of Foley's in downtown Houston, Texas. Four new floors, comprising 250,000 square feet, were added to the building in 1956, increasing its space by 50 per cent. New selling areas thus created in the upstairs store are being occupied gradually on a schedule that runs until late 1957. Meanwhile, enlargement of Foley's basement and garage has begun and will be finished this year.

Among the other new buildings to be occupied during 1957 are three branch stores, aggregating over 380,000 square feet, that will open on various dates during the fall season. Largest of them is Abraham & Straus' third branch store, located in the Great South Bay Center, Babylon, Long Island. Filene's, a pioneer in branch store development, will open its newest and largest branch in the North Shore Shopping Center, Peabody, Mass. In Dallas, Texas, Sanger's will have its second branch store ready by July; it is in an important shopping area on Preston Road, serving the northern section of the growing city.

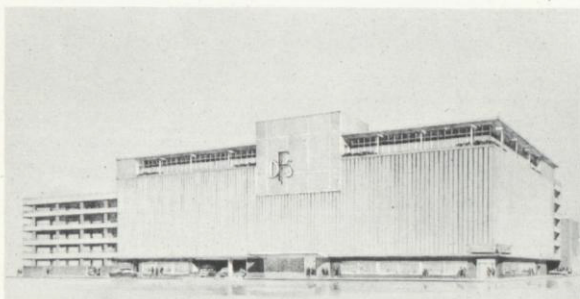
For 1957 Occupancy



Sanger's, Preston Road, Dallas



Filene's, North Shore Shopping Center



Federated Headquarters, Shillito Garage, Cincinnati



Foley's, where addition of the four top floors of this building created new selling space that is being occupied during 1957



Abraham & Straus, Babylon, Long Island

Another 1957 completion will be a doubling of Shillito's customer parking garage in downtown Cincinnati. On the top floor of this building will be new offices for the headquarters of Federated.

Among the projects announced for later accomplishment are one downtown store enlargement, by Lazarus in Columbus, and four branch stores, one each for Abraham & Straus, Sanger's, Shillito's and the Boston Store in Milwaukee, Wisconsin. Of these the first to be ready will be the Boston Store's first branch in Milwaukee. It will open in the spring of 1958 in the Bay Shore Shopping Center, serving northeastern Milwaukee and its suburbs. The largest single project is the Lazarus' downtown store expansion; it will add 300,000 square feet, increasing the main store's area by about one-third.

GROWTH INTERNALLY

Fundamentally, we can grow and prosper only by successfully satisfying customers' wants. They must be able to find in our stores the merchandise they want, with the kind of service they wish, offered at the time they desire to buy it and at prices that are reasonable and competitive. They must be able to fill substantially their shopping lists from assortments that are broad enough, deep enough and fresh enough to make that possible.

Guided by this appreciation of our customers' requirements, our stores seek to be, and generally are, the leading stores in their communities, at the same time maintaining a dynamic growth and a satisfactory return on investment. Leadership by a store depends upon the maximum number of customers accepting the store as shopping headquarters. That means that customers shop our stores first because they find our day-to-day assortments and our service the most attractive.

Achieving this status depends upon the individual departments within a store, each of which must seek to become the shopping headquarters for its type of merchandise. This approach to our business can be understood best by visualizing the many small businesses that make up a big store. The lamp business, the linen business, the dress business—a full-line department store comprises about 150 of these businesses, each handled by a separate selling department. For Federated to grow and prosper, each of these businesses must grow and prosper. This belief is deep and fundamental in each Federated store and throughout the Company. From it flow two basic conclusions:

First, the key units in Federated for growth *and profitability* are the selling departments of the stores and the people in them, the manager and his or her associates.

Second, to the degree that everyone else—the scores of service employees, the merchandise managers, the executives—help the selling departments to achieve their goals, to that degree these other members of the organization can help toward the over-all store objectives.

Charting this concept, the customers, of course, stand at the top of the chart. Immediately in contact with them, at the top of our organizational structure, are our selling departments. Ranked in supporting tiers are the sales-supporting departments, the various levels of store management, the company headquarters.

Departments' Role

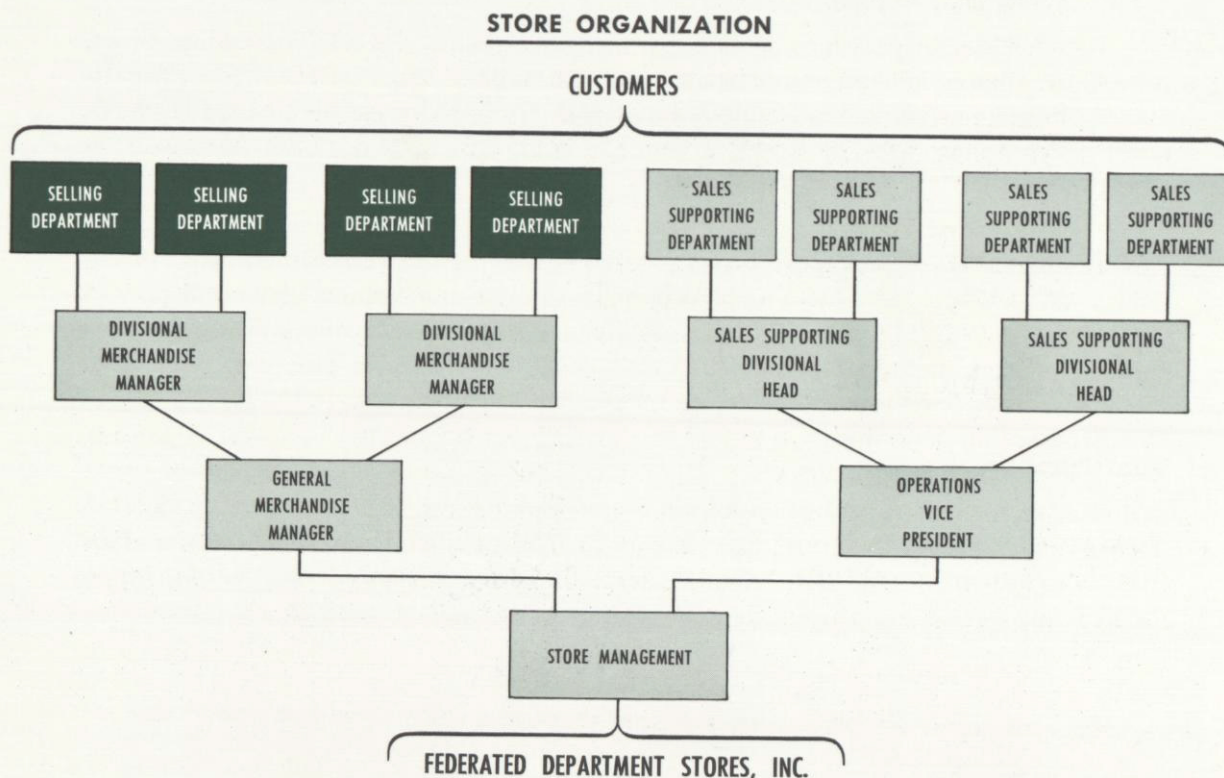
The selling departments stand at the head of the organizational structure because they make most of the hundreds of day-to-day decisions upon which growth and profitability depend. In a store handling millions of transactions no master mind can decide how many pink pillow slips to have in stock, which type of lawn mower will be most popular, when to feature beige cashmere sweaters. The selling departments must originate

those decisions—what to buy, when to buy it, in what quantities and price lines. They must decide what services customers expect to get with each kind of merchandise. They make most of the selling decisions—which merchandise to feature, how to display it, when to advertise it.

They do all this, of course, preparing to meet and satisfy customers. Last year, in order to achieve a sales volume in excess of \$600 million, Federated had to handle more than 118 million transactions, more than 700 every minute of every business day. Each one of these transactions was a separate business deal, a new test of some department's ability to satisfy a customer's need. Selling department success is a prerequisite for Federated success.

According to this organizational policy, the most important work of other units in the store organization is helping the selling departments toward the common objective of store leadership in its community. To that end the sales-supporting departments provide services that can be most efficiently handled centrally.

The general superintendent's department, for example, moves goods, including getting new merchandise quickly and efficiently from the receiving dock through the marking room to the selling floor and from the selling floor to the customer. The publicity department, working with advertising, display and special events, helps selling departments highlight the merchandise that will attract customers. The controller's department, among other duties, handles customers' accounts in a manner that will make customers'



dealings with the store smooth and efficient. The personnel department helps recruit and train selling department personnel. The building department maintains for the selling departments an environment that customers will find neat and attractive. Efficient, customer-conscious service by these departments is essential in order to achieve the store's objective of leadership in its community.

Management's Role

In a store so organized, the role of management beyond the department level is both decisive and delicate. It is decisive because management has, of course, responsibility for the total store's performance—growth, leadership and profitability—plus commensurate authority. It is delicate because, without relieving departments of responsibility for their sales, profits and efficiency, management must stimulate them to improve in all these directions, thus improving the performance of the whole store.

In Federated, planning is the springboard for management's leadership. Periodically, each selling and sales-supporting department reviews its past record and its future plans with senior management. Out of a planning discussion between management and the department come a re-statement of long-range objectives, a review of long-range plans, a realistic assessment of the department's progress, an agreement on the next short-term objectives and a specific plan for achieving them. In the course of such a discussion each department can spread out before management its plans, needs and ambitions; management can guide, teach and evaluate; management and the department together work out a mutually-understood plan for progress.

Between planning sessions, management's role is to supervise fulfillment of the plans, counseling, stimulating and even participating up to a point short of relieving the department of its responsibility. Leadership is easier and more productive because management and the department have developed a common language and a common framework in which to work.

We have found that this active, day-to-day contact with management, in an organized way, has allowed young executives to become more effective more quickly. This is vital in an expanding company like Federated. As expansion creates new opportunities within our organization, the result often is a chain reaction of promotions. People thus given new responsibilities need management's guidance in relating daily decisions to the fundamentals of retailing so that they can make improved decisions in the future.

The Purpose

The concept of organization sketched here emphasizes helping people to develop themselves so that they, in turn, can develop their segments of our business more effectively. The growth and profitability of the segments of our business create the foundation for Federated's over-all growth and profitability.

* * *

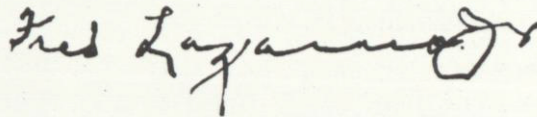
Much of this letter has been devoted to a discussion of three policies underlying Federated's growth: our policy for internal growth, our policy on physical expansions and our policy on geographical diversification. It is perhaps appropriate, therefore, to point out that we do not seek growth for growth's sake. We want increased volume at an adequate profit margin; volume and profit margin together must earn an attractive return on the capital invested in our Company.

* * *

During the 1956 fiscal year, your Board of Directors elected three new members, increasing its number to nineteen, and added a new member to its Executive Committee. Mr. George E. Whitten, President of the new Burdine division, and Mr. Max Levine, President of Foley's, became directors of the Company in September. Mr. Dillon Anderson, partner in the Houston law firm of Baker, Botts, Andrews & Shepherd, was elected to the Board in January, 1957. Also in January, Mr. T. Spencer Shore, a director since July, 1955, was elected a member of the Executive Committee.

In closing, I wish to express my thanks and appreciation to the folks who worked together, throughout all the Federated divisions, to make 1956 a record year for us in so many respects. I am confident that they join me in re-stating our determination to maintain an open-minded approach to the entire problem of meeting customer wants, both efficiently and profitably.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Fred Lazarus, Jr.", with a stylized, cursive script.

Fred Lazarus, Jr.
President

BY ORDER OF THE
BOARD OF DIRECTORS

FEDERATED DEPART

CONSOLIDATED

ASSETS

CURRENT ASSETS:	FEBRUARY 2, 1957	JANUARY 28, 1956
Cash	\$ 24,525,822	\$ 22,609,535
Accounts receivable (See accompanying statement)	88,674,123	78,980,003
Merchandise inventories (Note 1)	67,806,266	57,663,093
Supplies and prepaid expenses	4,267,657	2,394,939
TOTAL CURRENT ASSETS	\$185,273,868	\$161,647,570
OTHER ASSETS:		
Real estate not used in operations — at cost		
less depreciation	\$ 3,514,757	\$ 2,287,077
Miscellaneous	1,903,409	1,982,236
	\$ 5,418,166	\$ 4,269,313
PROPERTY AND EQUIPMENT — net		
(See accompanying statement)	67,277,219	52,691,818
GOODWILL — at nominal amount	1	1
	<u>\$257,969,254</u>	<u>\$218,608,702</u>

MENT STORES, INC.

BALANCE SHEET

LIABILITIES

CURRENT LIABILITIES:	FEBRUARY 2, 1957	JANUARY 28, 1956
Long-term debt due within one year	\$ 777,079	\$ 36,946
Accounts payable and accrued liabilities	43,238,969	35,265,592
Federal taxes on income less U. S. Treasury Bills of \$7,963,179 and \$5,972,133	15,065,688	16,127,867
TOTAL CURRENT LIABILITIES	\$ 59,081,736	\$ 51,430,405
 PROVISION for contingent compensation	 3,994,347	 3,220,054
 RESERVE for possible assessment of taxes for prior years . . .	 1,904,440	 1,962,433
 LONG-TERM DEBT, due after one year (Note 2)	 23,589,946	 19,385,524
 SHAREHOLDERS' INVESTMENT — 7,704,091 common shares outstanding at February 2, 1957 (See accompany- ing statement)	 169,398,785	 142,610,286
	<u>\$257,969,254</u>	<u>\$218,608,702</u>



CONSOLIDATED STATEMENT OF INCOME

	FIFTY-THREE WEEKS ENDED FEBRUARY 2, 1957	FIFTY-TWO WEEKS ENDED JANUARY 28, 1956
Net retail sales (including sales of leased departments)	\$601,491,511	\$537,722,365
Deduct:		
Cost of goods sold and expenses, exclusive of items listed below	\$518,326,620	\$461,212,880
Maintenance and repairs	6,100,544	5,127,861
Depreciation and amortization	6,349,284	5,804,755
Rentals (Note 3)	6,812,392	6,134,841
Interest and debt expense	2,442,776	1,966,782
Taxes other than federal taxes on income	9,311,971	8,420,045
Retired employees and contributions to retirement plans	3,419,028	3,296,793
	<u>\$552,762,615</u>	<u>\$491,963,957</u>
	\$ 48,728,896	\$ 45,758,408
Miscellaneous other income — net	<u>582,028</u>	<u>455,734</u>
INCOME BEFORE FEDERAL TAXES		
ON INCOME	\$ 49,310,924	\$ 46,214,142
Federal taxes on income	<u>25,800,000</u>	<u>24,150,000</u>
NET INCOME	<u><u>\$ 23,510,924</u></u>	<u><u>\$ 22,064,142</u></u>



COMMON SHAREHOLDERS' INVESTMENT AND CHANGES THEREIN

53 Weeks Ended February 2, 1957

For legal and accounting reasons, the common shareholders' investment in the Company is divided into three parts: (1) the accumulated earnings which are employed in the business, (2) par value of common stock, which is the legal capital of the Company, and (3) the excess of the consideration (cash or other assets) received for common stock issued over its par value, which is regarded as additional capital from the accounting point of view. These amounts at February 2, 1957 are summarized as follows:

Accumulated earnings employed in the business	\$ 90,780,707
Par value of common stock	19,260,228
Capital in excess of par value of common stock	59,357,850
	<u>\$169,398,785</u>

The changes in each of these categories during the year ended February 2, 1957 are tabulated below:

ACCUMULATED EARNINGS EMPLOYED IN THE BUSINESS

Balance, beginning of year	\$79,177,090
Net income for the year	23,510,924
Cash dividends on common stock — \$1.60 per share	11,907,307*
Balance, end of year	<u>\$90,780,707</u>

PAR VALUE OF COMMON STOCK

Authorized shares of \$2.50 par value common stock were 10,000,000 shares. Changes in the common stock held by shareholders other than the Company are as follows:

	Shares	Amount
Outstanding, beginning of year (excluding 167,524 shares in treasury)	7,191,934	\$17,979,835
Issued July 28, 1956 for acquisition of the business of Burdine's	525,561	1,313,903
Issued upon exercise of options to purchase common stock	23,764	59,410
Issued from treasury under contingent compensation plan	498	1,245
Purchased for the treasury	37,666*	94,165*
Outstanding, end of year (excluding 204,712 shares in treasury, of which 203,445 shares are for possible future issue under contingent compensation plan)	<u>7,704,091</u>	<u>\$19,260,228</u>

CAPITAL IN EXCESS OF PAR VALUE OF COMMON STOCK

Balance, beginning of year	\$45,453,361
Excess of consideration received over par value of common stock issued for acquisition of the business of Burdine's	14,610,579
Excess of proceeds over par value of stock issued upon exercise of options to purchase common stock at \$21.11 per share	442,196
Credits resulting from issuance of treasury stock under contingent compensation plan	9,885
Excess of cost over par value of common stock purchased for treasury	1,158,171*
Balance, end of year	<u>\$59,357,850</u>

* Deduct.



ACCOUNTS RECEIVABLE

	FEBRUARY 2, 1957	JANUARY 28, 1956
Due from customers:		
Thirty-day charge accounts	\$ 39,606,844	\$ 38,752,266
Deferred payment accounts	88,379,395	80,057,065
Other accounts receivable	5,694,307	3,828,047
	<u>\$133,680,546</u>	<u>\$122,637,378</u>
Less:		
Provision for possible future losses and deferred service charges . . .	\$ 8,495,597	\$ 7,087,940
Accounts sold to banks without recourse (less Company's equity therein of \$4,752,642 at February 2, 1957)	36,510,826	36,569,435
	<u>\$ 45,006,423</u>	<u>\$ 43,657,375</u>
Net	<u>\$ 88,674,123</u>	<u>\$ 78,980,003</u>

PROPERTY AND EQUIPMENT

	COST	ACCUMULATED DEPRECIATION AND AMORTIZATION	NET
FEBRUARY 2, 1957:			
Land	\$ 11,566,472	\$ —	\$ 11,566,472
Buildings substantially all on owned land	18,166,662	6,748,331	11,418,331
Buildings on leased land, improvements to leased properties and leaseholds	21,826,956	5,640,238	16,186,718
Store fixtures and equipment	49,359,100	21,253,402	28,105,698
	<u>\$100,919,190</u>	<u>\$ 33,641,971</u>	<u>\$ 67,277,219</u>
JANUARY 28, 1956:			
Land	\$ 9,053,970	\$ —	\$ 9,053,970
Buildings substantially all on owned land	15,268,264	6,101,792	9,166,472
Buildings on leased land, improvements to leased properties and leaseholds	15,745,211	5,002,500	10,742,711
Store fixtures and equipment	43,076,664	19,347,999	23,728,665
	<u>\$ 83,144,109</u>	<u>\$ 30,452,291</u>	<u>\$ 52,691,818</u>



NOTES TO FINANCIAL STATEMENTS

1. **MERCHANDISE INVENTORIES** were valued by the use of the retail method of inventories as follows:

	February 2, 1957	January 28, 1956
Stated on the LIFO (last-in, first-out) basis, which is lower than market. This basis has been employed by several of the Company's divisions:		
Since 1941	\$47,234,140	\$38,318,934
Since 1950	12,890,561	12,890,075
	<u>\$60,124,701</u>	<u>\$51,209,009</u>
Stated at cost or market whichever is lower, representing inventories for which the LIFO basis is not used	7,681,565	6,454,084
	<u>\$67,806,266</u>	<u>\$57,663,093</u>

2. **LONG-TERM DEBT** due after one year, comprising mortgage notes of \$5,876,665 (interest of 3% and 3½% on \$5,713,465) and unsecured notes of \$17,713,281 (interest of 3¼% to 3⅝% on \$17,625,781) matures as follows:

Year ending January	Amount	Year ending January	Amount	Year ending January	Amount
1959	\$ 466,269	1963	\$2,124,069	1967	\$ 1,376,008
1960	1,656,984	1964	2,121,484	1968	1,680,030
1961	2,070,583	1965	3,261,803	1969	1,375,186
1962	2,402,107	1966	3,257,223	1971-76	1,798,200
					<u>\$23,589,946</u>

3. **LONG-TERM LEASES** of the Company at February 2, 1957 comprised 95 leases with terms of more than three years after that date and with an aggregate minimum annual rental of approximately \$7,234,000. In addition to fixed rentals most of these leases require the Company to pay real estate taxes (recorded as taxes) and other expenses and, as to some of the leases, additional rentals based on a percentage of sales. In so far as any of the main stores of the Company are in whole or in part on leased sites, no one of these is a percentage lease, the earliest expiration date on any of these leases is 1966, and all contain renewal provisions excepting eight, one of which expires in 2008, four in 2010, and three in 2016.

4. **STOCK OPTIONS**—A new plan was approved by the shareholders in 1956 for 200,000 shares; no options had been granted at February 2, 1957.

Under the 1951 plan, (1) at January 29, 1956, options for 111,898 shares were outstanding and 129,000 shares were unoptioned, (2) during the year, options were granted at \$32.83 per share for 91,400 shares, and were exercised for 23,764 shares at \$21.11, (3) at February 2, 1957, options were outstanding for 179,534 shares at from \$21.11 to \$32.83 per share, of which 47,466 shares were exercisable, and (4) the remaining 37,600 unoptioned shares were cancelled.

TOUCHE, NIVEN, BAILEY & SMART

ACCOUNTANTS AND AUDITORS

233 BROADWAY
NEW YORK 7, N. Y.

April 9, 1957

Board of Directors and Shareholders
Federated Department Stores, Inc.
Cincinnati, Ohio

We have examined the consolidated balance sheet of Federated Department Stores, Inc. and its subsidiaries as of February 2, 1957 and the related consolidated statements of income and changes in common shareholders' investment for the 53 weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of income and changes in common shareholders' investment present fairly the consolidated financial position of Federated Department Stores, Inc. and its subsidiaries at February 2, 1957, and the consolidated results of their operations for the 53 weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche, Niven, Bailey & Smart



Financial Summary Over 25 Years

BALANCE SHEET HIGHLIGHTS

YEAR*	WORKING CAPITAL	LAND, BUILDINGS & EQUIPMENT (NET)	LONG-TERM DEBT	PREFERRED STOCK	MINORITY INTERESTS IN SUBSIDIARIES	COMMON SHAREHOLDERS' INVESTMENT
1956	\$126,192,132	\$70,791,976	\$23,589,946	\$ None	\$ None	\$169,398,785
1955	110,217,165	54,978,895	19,385,524	None	None	142,610,286
1954	95,932,682	60,205,630	22,295,821	None	None	131,273,218
1953	91,513,970	65,707,633	23,306,582	9,982,700	None	122,180,083
1952	92,022,132	65,864,729	27,688,072	10,274,500	None	118,571,343
1951	90,563,086	59,264,247	22,535,539	10,721,500	None	115,099,002
1950	94,061,086	48,454,671	31,013,675	12,030,500	None	98,190,319
1949	77,450,049	44,828,341	22,735,327	12,139,500	None	87,021,999
1948	76,679,588	44,501,613	29,959,831	12,268,500	2,539,219	75,853,193
1947	52,671,296	34,505,569	12,920,462	12,602,500	2,315,361	58,337,515
1946	56,871,902	29,415,937	21,799,200	12,861,000	2,288,393	52,835,174
1945	48,414,204	24,050,710	16,234,000	12,861,000	5,886,415	40,186,496
AS AT JULY 31†						
1945	47,097,865	23,092,403	15,999,500	12,861,000	7,298,191	37,886,873
1944	33,840,949	24,468,382	12,783,868	9,711,000	7,055,468	33,827,511
1943	33,270,318	25,131,836	12,789,897	9,781,000	7,029,563	31,880,666
1942	38,358,609	26,173,942	20,414,016	10,275,000	6,971,242	29,361,912
YEAR*						
1941	29,413,127	26,212,294	10,980,183	10,495,000	6,974,360	29,328,539
1940	28,292,487	26,012,561	10,295,413	10,935,000	7,493,094	27,520,596
1939	26,054,743	26,368,120	9,583,360	11,225,000	8,062,698	25,421,592
1938	26,601,101	26,822,655	11,025,200	11,765,000	7,994,486	24,636,258
1937	24,638,645	22,120,026	5,890,256	12,205,000	7,911,110	23,377,621
1936	25,206,318	19,420,806	5,147,000	12,345,000	8,019,295	22,683,328
1935	22,336,770	20,007,884	5,466,000	None	17,110,999	22,382,366
1934	26,181,369	19,672,030	5,870,000	None	20,696,888	22,264,591
1933	27,795,065	19,878,049	6,372,000	None	21,804,412	22,031,396
1932	27,583,610	21,708,915	6,550,000	None	22,791,923	20,980,078

NOTES:

* Ended on the following January 31 or the nearest Saturday thereto.

† Or the nearest Saturday thereto.

(For sales, earnings, dividends over 25 years see the following page)



Financial Summary Over 25 Years

SALES-EARNINGS-DIVIDENDS

YEAR*	NET SALES	INCOME BEFORE FEDERAL TAXES ON INCOME	NET INCOME**	EARNINGS PER SHARE OF COMMON STOCK†§	DIVIDENDS PER COMMON SHARE†
1956	\$601,491,511	\$49,310,924	\$23,510,924	\$3.16	\$1.60
1955	537,722,365	46,214,142	22,064,142	3.07	1.43 ³ / ₄
1954	500,556,136	39,791,636	19,091,636	2.63	1.25
1953	478,849,294	31,038,484	13,888,484	1.87	1.25
1952	447,861,616	30,643,979	13,543,979	1.81	1.25
1951	408,843,563	25,597,133	13,297,133	1.91	1.25
1950	389,065,599	33,458,968	18,098,968	2.67	1.04 ¹ / ₄
1949	358,551,020	25,092,955	15,440,496	2.32	.88 ¹ / ₂
1948	346,526,318	25,386,067	14,780,181	2.43	.83 ¹ / ₄
1947	304,720,671	18,353,241	10,394,202	1.74	.67 ³ / ₄
1946	265,412,038	21,456,113	12,043,308	2.04	.54 ³ / ₄
1945	200,900,942	19,692,177	4,969,248	.89	.31 ¹ / ₄
1944	182,269,101	18,384,196	4,219,171	.79	.31 ¹ / ₄
1943	163,395,293	13,894,861	3,888,543	.74	.30 ¹ / ₄
1942	142,540,112	8,673,175	3,041,455	.57	.31 ¹ / ₄
1941	131,427,879	6,793,092	2,972,381	.55	.31 ¹ / ₄
1940	114,657,245	4,994,337	3,192,100	.60	.31 ¹ / ₄
1939	110,114,135	4,820,796	3,286,287	.63	.26
1938	105,908,984	3,962,464	2,756,223	.51	.26
1937	107,672,940	3,952,882	2,709,219	.49	.36 ¹ / ₂
1936	103,209,532	4,980,696	2,962,374	.63	.41 ³ / ₄
1935	91,638,295	2,867,044	1,468,484	.33	.20 ³ / ₄
1934	89,123,523	2,632,320	1,148,349	.26	.20 ³ / ₄
1933	82,551,164	3,126,249	1,443,791	.33	.14 ¹ / ₂
1932	84,951,226	2,025,879	564,056	.13	.13 ¹ / ₂

NOTES:

* Ended on the following January 31 or the nearest Saturday thereto.

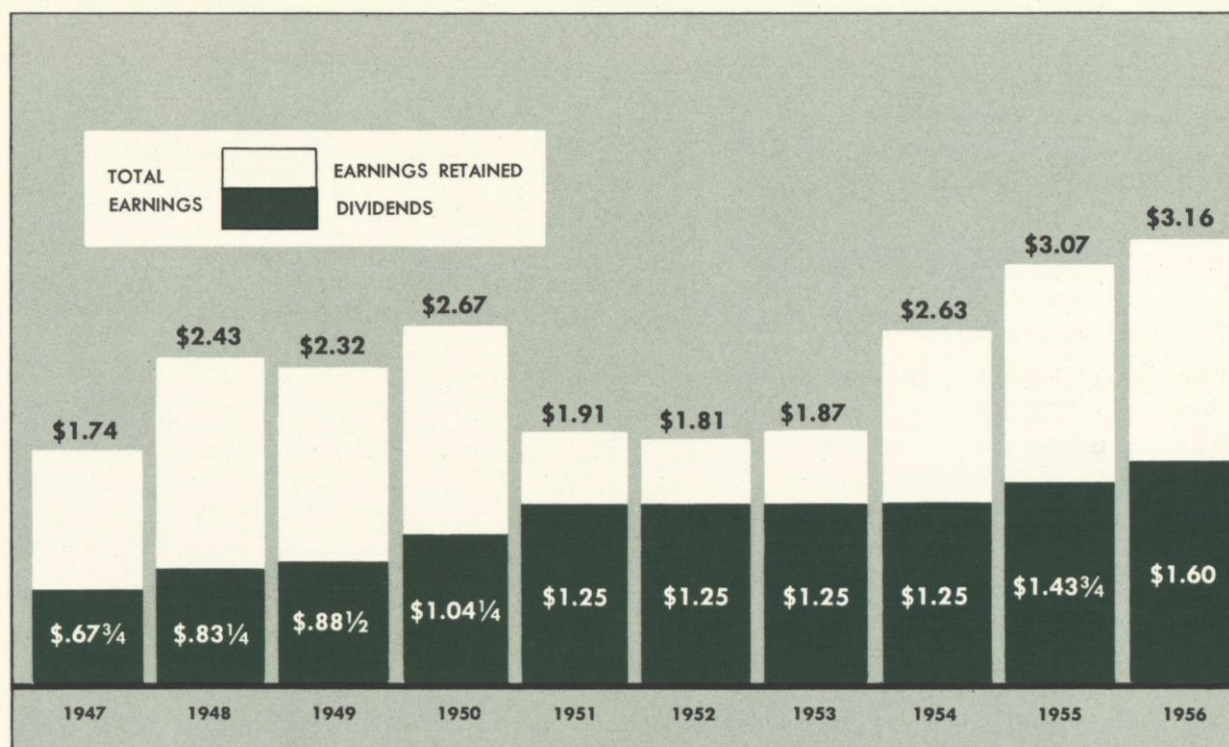
** After minority interests for 1949 and prior years.

† Adjusted to reflect 2 for 1 split on August 1, 1946, 20% stock dividend on June 29, 1951, and 2 for 1 split on January 27, 1956.

§ Calculated on number of shares outstanding at end of the year entitled to receive dividends for 1946 and prior years, and on average number of shares outstanding during the year for 1947 to date.

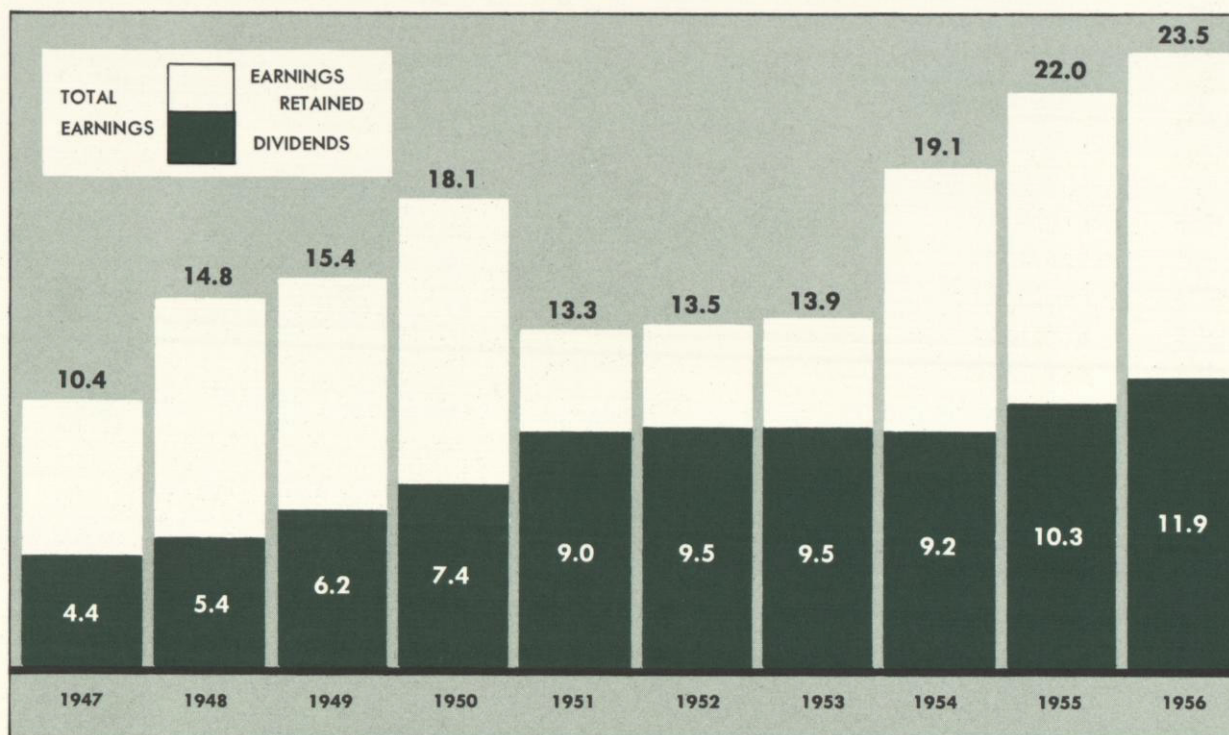
(For balance sheet highlights see preceding page)

TEN YEAR RECORD OF PER SHARE EARNINGS AND DIVIDENDS



TEN YEAR RECORD OF DIVIDENDS AND EARNINGS RETAINED

MILLIONS OF DOLLARS





1956

FISCAL YEAR ENDED
FEBRUARY 2, 1957

1956
888p
187